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Oppose Senate Bill 4

My name is Eric Santini and I am a multi-family builder/developer as well as a property manager and apartment owner from Ellington, CT. I am also the immediate past President and Chairman of the Home Builders and Remodelers Association of Connecticut. Our family business manages over 1,200 apartment units located in the towns of Vernon and Ellington, CT. My father started our business over 50 years ago and I now manage our properties with my brother Kevin. We have built and developed all the properties that we own and currently have approximately 25 employees that service our properties.

I ask that this committee oppose Senate Bill 4 because it fails to address the root cause of the affordability issue in Connecticut. In fact, I believe that this bill as written has the potential to exacerbate the problem.

Connecticut Needs More Housing

Since the onset of the Great Recession in 2008, the state of Connecticut has been producing + or – 5,000 single and multi-family housing units annually. In 2003 through 2005 we produced over 10,000 housing units. The temporary surge of out-of-staters that purchased and rented homes and apartments in Connecticut over the course of the pandemic brought this housing shortage to light. We need to find ways to produce more housing to keep up with the demand and changing demographics in our state. This burden must be carried by both the state and our municipalities to find solutions on how to make it more attractive for builders to build and develop much need multi-family housing units through significant investments in the infrastructure needed to support this housing, zoning reforms that promote higher density communities that meet today's housing demands, and financial and density incentives that incentivize builders to create "the missing middle" and affordable units that the state sorely needs. Imposing rent caps will actually disincentivize builders and developers to develop housing in our state which will serve to further restrict supply and increase rents.

The Effect of Rent Caps on Builder/Developers/Owners and Lenders

The development of housing requires capital. Builders and developers need to partner with lenders to build and maintain multi-family properties. Rent caps will disincentivize lenders from loaning money in our state to both developers and property owners alike. If you are a lender, why would you place a loan to a multi-family property that caps rent and puts a ceiling on a developments long-term potential and viability when you can go to other states where there isn't a rent cap? Why would you lend to an older property that inherently needs updates when rent caps won't allow for them?

Rent Caps Hamper the Ability for Landlords and Multi-family Purchasers to Reinvest in Their Property

Buildings and the components in them do not last forever. After 20 or so years property owners must continually reinvest in the property. This includes the eventual replacement of the mechanical systems that heat and cool these homes, the pavement that covers the parking lots, the shells of the buildings including the roofs, windows, and doors, the in-unit appliances and the cosmetic changes that are necessary to keep the property marketable. A reinvestment in the property ensures that its residents are living in a safe comfortable home. In addition, reinvestments in properties help invigorate neighboring properties and communities. Oftentimes, portfolio property owners purchase properties with the intent that they will fully renovate the property in order to get the return that they require on their investment. These renovations extend the lives of the property and help increase the tax base for the municipality. In our business, we consistently reinvest in our properties. In fact, we recently finished a large-scale renovation of one of our properties located in Vernon that was built in the 1970's. The product of this renovation were apartments with updated kitchens, appliances, bathrooms, windows, and flooring that added to the value of the property, as well as the town's tax base, while offering future residents a more energy efficient and updated home. SB 4, as currently written, would preclude us from taking on this large-scale renovation.

Rent Increases Have Been Historically Low in CT

According to Vic Noletti, who is one of the largest apartment brokers in the state, CT rents have increased approximately 3% from 2007 through 2022. Keep in mind that is inclusive of the temporary run up in rents that were fueled by the pandemic and inflation. A 3% increase is modest at best and barely keeps up with the a multi-family owners operating expenses which include municipal property taxes.

Landlords Cannot Control the Market Forces that Effect Major Operating Expenses

One of our properties located in Ellington, CT recently experienced a 35% increase in property taxes after a town revaluation without significant renovations. Should the landlord have to absorb the burden of that increase when the town provides services to all its tenants? In reaction to the increase, we increased renewal rents about 3% which did not fully cover the increase in property taxes. In addition, other volatile operating expenses such as property and liability insurance, worker's compensation and employee wages are subject to market forces. The apartment owner should not have to insulate its residents entirely from the inherent volatility of these expenses no more than a grocery store should subsidize increased food prices. Note that homeowners are exposed to the same expenses as an apartment owner without protection.

What Kind of Housing Do We Want to Provide for Our Residents?

Multi-family properties that are properly maintained and renovated as needed provide a positive economic ripple effect throughout our communities. The increase in values provide necessary tax base growth for communities that fund schools, infrastructure and services for their towns. In addition, new multi-family construction and reinvestment in older properties provide direct local construction related jobs that benefit local suppliers and service providers. Beyond the financial benefits, new and updated multi-family housing improves the quality of neighborhoods and oftentimes forces other properties to "keep up" with the market.

The housing shortage problem in our state is a product of the lack of housing production over an extended period of time. To solve in state affordable housing concerns, we must find ways for the state, municipalities and residential builder/developers to work together to increase housing production so that it meets the demands of future generations. Imposing rent caps only impedes this. In addition, if we disincentivize landlords from reinvesting in older properties, we unnecessarily accelerate the decline of not only these properties but our local communities. If we are going to solve a problem, let’s focus on the source of the problem. I respectfully ask that the Housing Committee opposes SB 4. Thank you for your consideration.